Week Ahead February 20-24th: Previewing FOMC mins, US PCE; Flash PMIs; RBNZ; Japan CPI, BoJ nominee hearings

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- **MON:** Bank of Israel Announcement, Bank of Indonesia Announcement, PBoC LPR, Riksbank Minutes (Feb), Swedish CPIF (Jan), EZ Consumer Confidence Flash (Feb), New Zealand PPI (Q4), Canadian Family Day Holiday, US Washington's Birthday.
- **TUE:** RBA Minutes (Feb); EZ, UK, US Flash PMIs (Feb), German ZEW Survey (Feb), Canadian CPI (Jan) and Retail Sales (Dec), New Zealand Trade Balance (Jan).
- **WED:** RBNZ Announcement, FOMC Minutes (Feb), German Ifo Survey (Feb).
- **THU:** BoK Announcement, CBRT Announcement; EZ Final CPI (Jan), US GDP and PCE (Q4), Japanese CPI (Jan), Japanese Emperor's Birthday Holiday.
- **FRI:** US President Biden visits Europe (TBC); German GfK Consumer Sentiment, US PCE (Jan), University of Michigan Survey Final (Feb).

NOTE: Previews are listed in day-order

CHINA'S TOP DIPLOMAT IN EUROPE: China's top diplomat Wang Yi kicked off his week-long tour through Europe in Paris on Wednesday. The diplomat is expected to travel to Italy, Germany, and Hungary – with a final stop in Russia as the Russia-Ukraine war approaches the one-year mark. China's European tour comes amid a time of heightened tensions with the US, with national security concerns expressed by both sides following the "spy balloon" incident, while China recently blacklisted US defence names in response to arms sales to Taiwan. China said the trip was to "promote new developments in bilateral relations, enhance strategic mutual trust between China and Europe, and exchange views on major international issues." Observers cited by SCMP said the "itinerary suggests that while China may be keen to patch things up with the EU, it has no intention of abandoning Russia." Wang Yi met with French President Macron on Wednesday, with Chinese state-run media Xinhua suggesting that both sides exchanged "in-depth views about the Ukraine issue," while a French government readout said both parties "expressed the same objective of contributing to peace in accordance with international law."

BIDEN VISITS POLAND (MON-WED): US President Biden will mark the one-year anniversary of Russia's invasion of Ukraine with a trip to NATO ally Poland, where he will meet with President Andrzej Duda and other eastern European partners. The White House said Biden wants to talk about the importance of the international community's resolve, and unity in supporting Ukraine, adding that the next weeks and months are going to be difficult for Ukraine's forces, and the US is going to continue to stand by them. Ukraine President Zelensky has recently been urging partners for additional support amid reports that Russia was preparing a Spring offensive. The US has sent weapons and economic aid to Ukraine throughout the war, and the administration has committed to sending 31 Abrams tanks. However, appetite among Americans to continue providing support appears to be fragile; an Associated Press-NORC Center poll found 48% of Americans support sending weapons to Ukraine vs 60% when polled in May 2022. And on the question about sending government funds directly to Ukraine, the poll shows 37% of Americans support the idea, 38% oppose it, and 23% were neither in favour nor opposed it.

RIKSBANK MINUTES (MON): At its February's gathering, the Riksbank hiked rates by 50bps to 3.00%, as expected, and lifted the Policy Rate Path to a new peak of 3.33% (prev. 2.84% in November). The decision implies another 25bps hike at the April meeting, and a modest possibility for further tightening thereafter, if inflation remains persistently hot; or, alternatively, there is around a 60% chance of a 50bps rate rise in April. Notably, the Policy Rate Path does not imply any rate cuts for the entire horizon (which runs through Q1 2026). Subsequently, Governor Thedeen outlined explicitly that the April meeting could see a 25bps or 50bps move. From the minutes, we are attentive to the views of other rate-setters on the magnitude they envisage for April and their take on the trade-off between combating stubbornly elevated inflation and increasing signs of a marked economic slowdown in Sweden.

PBOC LPR (MON): The PBoC is likely to maintain its benchmark lending rates next week, with the 1yr and 5yr Loan Prime Rates (LPRs) expected at 3.65% and 4.30% respectively. The central bank has refrained from any adjustments to the LPRs since its last cuts in August, and expected to continue maintaining current levels to avoid unwanted pressure on the local currency, and as China's recent border reopening also reduces the urgency for further policy support. The PBoC's decision to maintain the 1yr medium-term lending facility (MLF) rate this month is seen as a leading indicator of its intentions regarding the benchmark 1yr LPR; last month, there was speculation that the PBoC could reduce its 5yr LPR (the reference rate for mortgages) given that the PBoC recently loosened mortgage rates for cities with home price declines, and said it will establish a dynamic adjustment mechanism for first-time home loan interest rates, albeit these were seemingly targeted measures.

PUTIN'S STATE OF THE NATION ADDRESS (TUE): Russia President Putin is likely to focus on the "current situation," particularly in the nation's economy and social environment, according to Novaya Gazeta. The 2022 address was omitted as Russia was preparing to announce its "special military operation" in Ukraine on February 24th. Thus, Putin's address comes just ahead of the one-year mark of the Russia-Ukraine conflict – when some fear a renewed Russian offensive in the Spring, and with reports suggesting that around 500k Russian troops have been mobilised. The Institute of the Study of War (ISW) said in its daily update on the conflict that Putin is unlikely to publicly announce further escalation in this speech.

RBA MINUTES (TUE): Australia's central bank will publish minutes from its February 7th meeting on Tuesday; at that meeting the RBA hiked interest rates by 25bps to a fresh decade high of 3.35%, as expected; attention was on the RBA's commentary, where it noted that the Board expects further rate increases, and was resolute in its determination to return inflation to the target. The RBA also stated that inflation is expected to decline this year due to both global factors and slower growth in domestic demand, while it also noted uncertainty around the expected slowdown in household spending, and how the global economy responds to the large and rapid increase in interest rates. It further added that these uncertainties meant there are a range of potential scenarios for the Australian economy ahead, and it opted to maintain its forecasts for 2023 GDP growth and CPI at 1.5% and 4.75%, respectively. The signal for further rate increases was the key highlight from the statement as there had been mixed views regarding the central bank's future intentions; CBA was among those that were assuming that this would be the last hike of the cycle; but in wake of the meeting, the bank adjusted its call, and now expects the RBA to lift rates again at its next two meetings. A separate poll revealed that economists have raised their views of the Australian terminal rate by 25bps to 3.85%.

EZ FLASH PMI (TUE): Expectations are for the flash February manufacturing PMI to rise to 49.3 from 48.8, the services PMI to increase to 51.0 from 50.8, and for the composite metric to move further into expansionary territory at 50.5 vs the previous 50.3. The January PMI report was characterised by a jump in both the services and manufacturing, with the latter helping the composite move back into modest expansionary territory. The accompanying report noted "a resumption of business output growth, even marginal, is welcome news and suggests that the Eurozone could escape a recession," but it added that "demand growth needs to accelerate to drive a more robust upturn, and it is worrying in that respect to see new orders continue to fall in January." This time around, it is expected that the positivity observed at the start of the year will follow through into the release. That said, Dutch bank ING suggests that this should be "in line with economic activity broadly stalling as it did in the fourth quarter." From a policy perspective, pricing for a 50bps rate hike in March is now an almost certainty, according to money market pricing. Beyond March, the May meeting is subject to greater debate, with a recent Reuters poll showing no clear consensus view for whether the ECB will stick with hikes at an increment of 50bps, or step down to a 25bps cadence; the upcoming release is unlikely to have too much sway on this debate given there are still several inflation and PMI reports to come between now and then.

UK FLASH PMI (TUE): Expectations are for the flash services PMI to rise to 49.3 in February from 48.7 in January, manufacturing to increase to 47.5 from 47.0, leaving the composite still in contractionary territory at 49.0 vs the prior 48.5. The January data was characterised by an uptick in the manufacturing metric (but still sub-50), while the services print fell deeper into contractionary territory, dragging the composite reading down to 48.5 from 49.0. The accompanying report noted that the composite reading represented "the longest period of continuous decline since the global financial crisis in 2008/09." Furthermore, "the latest survey illustrates that the UK economy risks falling into recession as labour shortages, industrial disputes and higher interest rates take their toll on activity." This time around, analysts at Investec suggest that despite the challenging environment, support should continue to be garnered from continued faith in the 2024 economic recovery. Accordingly, Investec "would not be surprised to see a further boost in sentiment over future prospects in the February report, owing to the more upbeat tone used to discuss the global economy by financial commentators and global institutions as of late." From a policy perspective, this week was busy for data releases, where the labour market report saw a jump in wage growth, inflation metrics declined at a faster-than-expected rate, and retail sales beat estimates, leaving the probability for a 25bps BoE rate rise in March at 73%, according to money market pricing. The upcoming release will likely not provide enough impetus to swing pricing decisively towards the possibility of an unchanged rate, however, it could prompt some suggestions of an even more divided MPC in the event that the metrics fall short of expectations.

CANADA CPI (TUE): Canadian consumer prices are seen falling 0.5% M/M in January (prev. -0.6%), although the annual rate is expected to tick-up by 0.1ppts to 6.4% Y/Y. Fears have been raised around global inflation releases after the sticky profile of price pressures seen in the US, while some regions in Europe are also seeing inflationary pressures persist by more than expected. “Stronger near-term momentum is clearly raising risks that central banks will hike interest rates more than previously expected this year,” analysts at Canadian bank RBC write, “but taken with slowing inflation and moderating wage growth, we don’t think there’s enough reason to alter that path just yet.” RBC projects that the BoC’s preferred measure of CPI (trim and median) will tick lower, while the breadth of Canadian inflation pressures will continue to gradually narrow.

RBNZ ANNOUNCEMENT (WED): New Zealand’s central bank is expected to continue hiking rates at its first meeting of the year, with 20 out of the 25 economists surveyed in a Reuters poll forecasting an OCR hike of 50bps, taking it to 4.75%; the remaining 5 economists are calling for a 75bps move. Money markets are pricing an 88% likelihood of the smaller move. A decision in line with the consensus would represent a slowdown in the pace of hikes from the 75bps cadence seen in late November, where the RBNZ said that monetary conditions needed to tighten further, and that it had considered moves of either a 75bps or 100bps increase at that meeting. The RBNZ also noted that consumer price inflation was too high, and the Committee agreed that the OCR needed to reach higher levels, and sooner than previously indicated, while it also revised its view for the OCR, now expecting a peak at 5.50% vs its previous view of 4.10%. The case for a shift to a less aggressive pace has been supported by data releases including weaker-than-expected jobs growth and a slight uptick in unemployment for Q4. Furthermore, 2yr inflation expectations have marginally softened, and the RBNZ is also anticipating a shallow recession for two-to-three quarters. Some have called for a pause, however, amid the national state of emergency due to Cyclone Gabrielle; but conversely, inflation data continues to place hawkish pressure on the central bank despite CPI easing to 1.4% Q/Q vs an expected 1.3% (prev. 2.2%), while annual consumer prices remains elevated at 7.2% Y/Y (exp. 7.1%, prev. 7.2%) which is more than double the upper end of the central bank’s 1-3% target.

FOMC MINUTES (WED): After economic data for January highlighted a hot economy where inflation appears to be sticky, traders will look through the minutes for clues about how the central bank could respond, specifically looking at any commentary that indicates officials have appetite for rate hikes to resume with jumbo increments above 25bps, or even expectations of a higher terminal rate for the cycle. As a reminder, the Fed hiked its FFR by 25bps to 4.5-4.75% at its February meeting, as expected. The statement said the central bank continues to see “ongoing increases” in the Fed rate as being appropriate, coming against some expectations that the line could be dropped in order to give optionality for a lower terminal rate than the 5-5.25% median dot in the December SEPs. While that didn’t happen, we did see a switch in language on guidance from the “pace of future increases” to the “extent of future increases,” suggesting that debate is moving from the size of hike increments to how many hikes remain in the cycle, a dovish offset to the continued use of “ongoing increases”. Elsewhere in the statement, the Fed acknowledged that inflation had eased somewhat, but remained elevated. Chair Powell sat on the fence on many topics he was asked about in his post-meeting press conference, rather than cut off his options. The Fed Chair confirmed that the disinflation process was underway, albeit he was eager to highlight that core services inflation, ex-housing, had not shown progress. He believes that policy is still not ‘sufficiently restrictive’, but left optionality by stressing data dependence, later saying that it is possible that the Fed updates its policy path if the data came in differently to what it expects. Powell said the Fed has not yet made a decision on the terminal rate, and that it will look at the data between now and the March SEPs. The Fed chief sees a path to getting inflation to 2% without significant economic decline, though it could take more slowing in the economy than it expects.

BOK ANNOUNCEMENT (THU): The Bank of Korea is expected to maintain its 7-Day Repo Rate at the current 3.50% level. The BoK has delivered a cumulative 300bps in rate increases since it began the tightening cycle, including a 25bps move at the last meeting in December. That meeting was not unanimous though, with two of the seven MPC members dissented by calling for a pause. At the meeting, the central bank said it expects GDP growth to be slower than previously anticipated, and also noted that inflation was likely to slow gradually, and its policy focus will remain on containing price pressures. The statement made no reference to the need for more rate hikes, but it was later revealed that the majority of policymakers viewed the case for additional hikes as having eased, while three MPC members saw the terminal rate at 3.50% (where it currently is now), and an equal number of members wanted to keep the terminal rate open. This suggests that there is a strong possibility that it could pause in February, although Governor Rhee has kept the door open for a future rate adjustment, and the BoK also noted that the Board will judge whether further hikes are needed while assessing factors such as economic and financial stability risks, the effect of rate hikes, the pace of inflation slowdown and monetary policy changes in major countries. The continued elevated inflation data from South Korea also supports the view that a further rate hike cannot be dismissed.

CBRT ANNOUNCEMENT (THU): The upcoming CBRT announcement comes amid the tragic wave of earthquakes, where over 40k people have perished in Turkey and Syria. The natural disaster has prompted Turkey’s President to announce a three-month state of emergency in the 10 provinces worst affected. Some reports suggest that the quakes could result in a loss of up to 1% of Turkey’s GDP. The upcoming meeting will likely focus on the economic impacts of the disaster. JPMorgan now expects the CBRT to lower rates by 100bps to 8.00% at the confab, and said that the direct costs from quake damage to physical structures could reach USD 25bln (or around 2.5% of GDP). In terms of other data, inflation for January cooled less than forecast, with desks flagging stickier inflation. It's also worth noting that Turkish elections are approaching in May (assuming no delays due to the current situation), with analysts widely flagging rate cuts ahead of the polls, and following the political leadership's renewed call for lower rates.

JAPAN CPI (THU): National Core CPI is forecast to have risen to 4.2% Y/Y in January from December's 4.0%, and to a more-than-41-year high. National CPI is expected to tick higher to 4.4% Y/Y from 4.0%, and CPI ex-Food & Energy is seen at 3.2% Y/Y from 3.0%. Analysts have been highlighting that the timelier Tokyo CPI data for the month accelerated to 4.4% Y/Y in January from 3.9%, but the national metric is expected to rise slightly less than the Tokyo data due to different weightings of gas prices between the two series. Capital Economics believes that food inflation will be a key driver, while the output price component of the Manufacturing PMI fell sharply last month. The Japanese CPI data will be closely watched as BoJ Governor-nominee Ueda is poised to appear before the lower house a day after the data. Ueda's speech will be key in gauging a clear stance from the Governor candidate ahead of incumbent Kuroda's end-of-term on April 8th, as markets expect a hawkish tilt from the most dovish G10 central bank at a time of hot CPI and wage data. As a side note, Japanese markets will be closed on CPI day amid the Emperor's Birthday, thus liquidity may be low in APAC hours.

BOJ GOVERNOR NOMINEE UEDA LOWER HOUSE APPEARANCE (FRI): Japan's Government nominated academic Kazuo Ueda as the next BoJ Governor, and BoJ Executive Director Shinichi Uchida and former FSA chief Ryozo Himino were nominated as Deputy Governors. The nominees will appear before the National Diet of Japan, consisting of the House of Representatives (lower house) and House of Councillors (upper house). The lower house confirmation hearing has been set for February 24th (and could be broadcast online), while the upper house appearance is touted for February 27th (yet to be confirmed). If the nominees are approved by both the House of Representatives and the House of Councillors, the Cabinet will appoint them to their proposed positions. Ueda's speech will be key in gauging a clear stance from the BoJ Governor candidate ahead of incumbent Kuroda's end-of-term on April 8th. Markets are expecting a hawkish tilt from the most dovish G10 central bank, at a time of hot CPI and wage data. The initial reports that had suggested Ueda was the frontrunner for the BoJ's top job was met with a mixed reception by markets, with articles which he authored in 2016 being circulated, where he was critical of "Abenomics" at the time, and in an article dated July 2022, he warned against raising rates prematurely but said the BoJ must eventually consider how to exit from its ultra-loose policy. In more recent commentary, on Ueda on February 10th said the central bank's monetary policy was appropriate and it needed to continue its brand of easy policy. A former staff secretary Tetsuya Inoue, during Ueda's time as a BoJ Board member between 1999 and 2005, said Ueda is likely to allow the data to guide the exit timing of a policy switch. Nonetheless, traders and investors will be on the lookout for hints on when, how, and to what degree Ueda may steer the BoJ away from its ultra-loose policy. Analysts at Rabobank warn that "It is expected that the most important task of nominee Governor Ueda will be to guide the BoJ to an exit of its ultra-accommodative QQE policies. That, however, does not suggest that the BoJ will be in any rush to change direction, nor does it mean that BoJ policy will be able to move far from current settings." Rabo also highlights that "given that other G10 central banks could be cutting interest rates in 2024, the window of opportunity for the BoJ to normalise is likely to be short. This supports the view that any changes in policy will be moderate."

US PCE (FRI): The street expects core PCE to rise +0.3% M/M in January, matching the pace seen in December, while the annual rate is likely to be unchanged at 4.4% Y/Y. The data will be read in the context of the hot CPI and PPI data for the month of January, which demonstrates that the road to normalising inflation will not be linear. The PPI and CPI data (combined with other measures of a solid economy, like the January jobs data and Services ISM) have raised fears around inflation releases, and accordingly, the market-implied trajectory for the Federal Funds Rate target has been hawkishly repriced in recent weeks (markets now see the terminal rate at 5.25-5.50%, vs 5.00-5.25% before the January data prints). Credit Suisse notes that PCE inflation usually runs a bit below CPI, but is still likely to outperform this month. "Core CPI continued to moderate in January, but much of the weakness was driven by components that don't impact PCE estimates," the bank writes, "meanwhile, PPI inflation surprised on the upside, including a pickup in health care, air fares, and financial services, all categories which pass through directly into PCE calculations."